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TAGS: [ENRG](#) [EPET](#) [KZ](#) [AJ](#)

SUBJECT: KAZAKHSTAN: KMG EXECUTIVE DISCUSSES KCTS PROCESS

REF: A. 06 ALMATY 1835

[1](#)B. 06 ALMATY 1934

Classified By: Ambassador John Ordway; reasons 1.5(b) and (d).

[1](#)1. (C) Summary: Arman Darbayev, KazMunaiGaz (KMG) Executive Director of Transportation Infrastructure, discussed KMG's vision of the Kazakhstan Caspian Transportation System (KCTS) process with Energy Officer on March 1. Darbayev (strictly protect) acknowledged that the Kazakhstanis intend to use the fact the IGA has not yet been ratified in Kazakhstan as leverage in early negotiations with the Azeris -- negotiations which, given the minimalist nature of the IGA and apparent differences of opinion on key issues (Darbayev focused on the marine transportation concept), were likely to be difficult. Darbayev explained that KMG hoped to get GOK approval on a general set of negotiating principles in the coming weeks, then launch preliminary talks with the Azeris; should the Azeris support a set of "minimal guarantees" (which had been written into the IGA at one time, but removed to facilitate agreement), then full HGA negotiations could be launched with both governments. Darbayev indicated that KMG viewed the two KCTS segments -- the Eskene-Kuryk pipeline and the "Trans-Caspian Project" -- as requiring separate negotiating processes. The pipeline, he said, would not need to be covered by an HGA. The GOK was prodding KMG to move quickly on KCTS, he said; at the same time, many in power believed that the GOK had erred in rushing to sign a stripped-down IGA in Spring 2006, and were determined not to give anything away in future negotiations. End summary.

IGA Ratification as Negotiating Leverage  
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[1](#)2. (C) Darbayev, who as Kaïrgeldy Kabyldin's Deputy, is an active participant in the KCTS negotiations, acknowledged in confidence that KMG, at least, viewed the fact that Kazakhstan's Parliament had failed to date to ratify the IGA as useful leverage in negotiations with the Azeris. Darbayev told Energy Officer that he had heard, indirectly, that during his recent visit to Kazakhstan, the Azeri Prime Minister had raised the issue of IGA ratification with Prime Minister Masimov. While Darbayev wasn't sure what Masimov's had replied, he was "worried that Masimov had not been properly briefed" about the strategic value of leaving the IGA unratified for the time being.

KMG's Vision of Next Steps  
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[1](#)3. (C) Darbayev explained that the Kazakhstanis needed all the leverage they could get in what he predicted would be

difficult negotiations with the Azeris. Darbayev described how KMG envisioned the negotiating process: his office was currently drafting a "high-level" set of negotiation principles for approval by the GOK. Once the GOK approved the principles, preliminary discussions with the Azeris would be launched. (Darbayev suggested this could occur as soon as late March.) Once the Azeris accepted in principle the "basic guarantees" that had been excluded from the IGA following Vice-Minister Kiinov's replacement of Kabyldin as lead Kazakhstani negotiator in May 2006 (Ref A), then HGA negotiations with both governments could begin.

#### Major Differences on Shipping?

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14. (C) Darbayev identified four points to be addressed in negotiations with the Azeris: (a) the "basic guarantees" had to either be included in the HGA, or adopted by means of a Government of Azerbaijan (GOAZ) decree; (b) the GOAZ had to create a special tax regime for the project; (c) basic investor rights would have to be elaborated; and (d) the two sides would have to agree on a marine transportation concept. Darbayev noted that the last issue was likely to be problematic. The GOK and investors envisioned joint ownership of the terminals on both sides of the Caspian, he said, but SOCAR President Abdullayev had recently lauded the planned construction of an entirely new, Azeri-owned terminal to receive Kazakhstani oil -- suggesting the Azeris had different ideas in mind. Further, Darbayev said, the Kazakhstanis planned to use 40,000 - 60,000 DWT vessels to transport oil; the Azeris, confident that their existing, 10-15,000 DWT fleet would dominate if tanker size were restricted, were likely to object.

#### Two KCTS Segments, Two Negotiation Processes

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15. (C) Darbayev told Energy Officer that the two components of the KCTS Project -- the Eskene-Kuryk pipeline and the "Trans-Caspian Project" (comprising a terminal at Kuryk, the tankers, an unloading terminal in Azerbaijan, and onward pipeline interconnections) -- called for different negotiating processes. For example, he said, the pipeline project would not have to be covered under an HGA; "regulation under national legislation" would suffice.

#### No Specific Deadline for KCTS Completion

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16. (C) Darbayev explained that, while including TengizChevrOil (TCO) in the KCTS process had added a sense of urgency, no specific completion date -- Kashagan "first oil" or other -- was driving the process. At best, he estimated, the negotiations could be finished and construction completed in 2011. (Note: ConocoPhillips' Country Manager Nick Olds recently confirmed to Energy Officer that Kashagan producers are counting on the fact that first Kashagan oil, in fact, will be shipped to market by some other means, with the Eskene-Kuryk pipeline coming on-line afterwards. End note.) The GOK was urging KMG to move the KCTS process forward quickly, Darbayev said. At the same time, he added, "Nazarbayev and other officials recognize that we made a mistake in rushing to sign the IGA, and we're determined not to make the same mistake again."

17. (C) Comment: As Kabyldin's loyal deputy, Darbayev is likely still smarting from Kabyldin's dismissal as lead IGA negotiator last Spring, and the subsequent signature of a revised IGA under Kiinov's leadership. For that reason, his comments about Nazarbayev's -- and the GOK's -- overall assessment of the IGA probably cannot be taken as authoritative. End comment.

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